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SUBJECT: INVENTORY OF BRAZIL TRADE PROBLEMS

1. ONE OF THE KEY AREAS OF LATIN AMERICAN CONCERN HAS BEEN THAT OF US-LATIN AMERICAN TRADE ISSUES. THIS WAS HIGHLIGHTED BY THE MEXICO CITY AND WASHINGTON FOREIGN MINISTERS' MEETINGS AND BY AMBASSADOR EBERLE'S TRADE CONSULTATION TRIP TO LATIN AMERICA. AS A FOLLOW-UP TO THE SECRETARY'S INITIAL-
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TIVES IN THE TRADE FIELD, THE DEPARTMENT IS IDENTIFYING THE

SIGNIFICANT COUNTRY-SPECIFIC TRADE PROBLEMS OF THE REGION.

2. IN THIS CONNECTION, THE DEPARTMENT HAS PREPARED A PRELIMINARY INVENTORY OF SIGNIFICANT TRADE ISSUES AFFECTING BRAZIL (SEE PARA. 3). THIS INVENTORY IS MERELY DESCRIPTIVE AND DOES NOT NECESSARILY MEAN THAT US WILL RAISE LISTED ISSUES WITH GOB. THE ISSUES HAVE BEEN GROUPED UNDER FOUR GENERAL HEADINGS WHICH INCLUDE PROBLEMS THAT BRAZIL HAS WITH THE US AS WELL AS PROBLEMS WE HAVE WITH THEM. THE EMBASSY IS REQUESTED TO REVIEW THE LISTING AND SUBMIT ANY ADDITIONS OR COMMENTS BY SEPTEMBER 25.

3.A. PRINCIPAL BRAZILIAN TRADE PROBLEMS WITH THE US:

1. COUNTERVAILING DUTIES AND SUBSIDIES: THE US COUNTERVAILING DUTY LAW REQUIRES THE SECRETARY OF THE TREASURY TO ASSESS A SPECIAL DUTY ON IMPORTED DUTIABLE MERCHANDISE IF HE DETERMINES IT IS BENEFITTING FROM THE PAYMENT OR BESTOWAL

OF A "BOUNTY OR GRANT." THE SPECIAL DUTY IS ALWAYS EQUIVALENT TO THE "BOUNTY OR GRANT," THE PURPOSE OF THE LAW BEING TO NULLIFY SUCH BENEFITS. THE TREASURY HAS ANNOUNCED THE IMPOSITION OF COUNTERVAILING DUTIES ON IMPORTS OF BRAZILIAN NON-RUBBER FOOTWEAR, WHICH AMOUNTED TO ABOUT 80 MILLION DOLLARS IN 1973. ALTHOUGH THIS REPRESENTS LESS THAN FIVE PERCENT OF BRAZIL'S TOTAL EXPORTS TO THE US, THE ISSUE HAS BECOME HIGHLY SENSITIVE SINCE BRAZIL'S WHOLE SYSTEM OF EXPORT INCENTIVES, ESPECIALLY FOR MANUFACTURED PRODUCTS, COULD RUN AFOUL OF OUR LEGISLATION. BRAZIL'S SIZE, RESOURCE ENDOWMENT, AND RAPID ECONOMIC GROWTH VIRTUALLY ENSURE STRONG BRAZILIAN IMPORT COMPETITION IN PRODUCT LINES OTHER THAN FOOTWEAR, WHICH COULD WELL TRIGGER ADDITIONAL COMPLAINTS FROM US MANUFACTURERS.

2. TEXTILE RESTRAINTS: ALTHOUGH OUR BILATERAL AGREEMENT WITH BRAZIL COVERING COTTON TEXTILES DOES NOT EXPIRE UNTIL SEPTEMBER 1977, THE US WILL REQUEST THE GOB TO SCHEDULE BILATERAL DISCUSSIONS TO BRING THE AGREEMENT INTO CONFORMITY WITH THE NEW GATT ARRANGEMENT ON FIBERS AND TEXTILES BEFORE THAT DATE. THE US IS CONTINUING TO MONITOR MAN-MADE FIBER TEXTILE AND APPAREL IMPORTS FROM BRAZIL. IN THE YEAR ENDING JUNE 30, 1974, COTTON TEXTILE AND APPAREL LIMITED OFFICIAL USE

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IMPORTS FROM BRAZIL WERE VALUED AT 24 MILLION DOLLARS AND MAN-MADE FIBER TEXTILE AND APPAREL IMPORTS FROM BRAZIL WERE 17 MILLION DOLLARS OR 66 PERCENT ABOVE THE 10.2 MILLION DOLLARS FIGURE FOR THE YEAR ENDING JUNE 1973.

B. PRINCIPAL US TRADE PROBLEMS WITH BRAZIL:

1. SUPPLY RESTRICTIONS ON COFFEE: BRAZIL WAS A LEADER IN

FORMING CAFE MUNDIAL AND IN OTROS SUAVES, S.A., THE TWO ORGANIZATIONS OF COFFEE PRODUCERS ATTEMPTING TO MANIPULATE PRICES BY CONTROLLING SUPPLIES.

2. APPLES AND PEARS: THE US HAS REPEATEDLY ASKED FOR A SEASONAL TARIFF CONCESSION ON US APPLE AND PEAR EXPORTS TO BRAZIL. THE GOB HAS CONSISTENTLY REFUSED, CITING ITS OBLIGATIONS TO ARGENTINA UNDER LAFTA. WE ARE HOPEFUL THAT THE MTN WILL PROVIDE AN APPROPRIATE FORUM FOR THREE-CORNERED NEGOTIATIONS TO RESOLVE THIS ISSUE. US PEAR EXPORTERS ESTIMATE A THREE-MILLION-DOLLAR ANNUAL TRADE IF THE CONCESSION IS GRANTED.

3. BRAZILIAN IMPORT RESTRICTIONS: SOME US EXPORTERS HAVE POINTED OUT THAT BRAZIL'S "LAW OF SIMILARS" ESTABLISHES HIGH RATES OF DUTY FOR IMPORTED ITEMS WHICH ARE "SIMILAR" TO DOMESTICALLY MANUFACTURED GOODS AND PROHIBITS DUTY REDUCTIONS OR EXEMPTIONS OTHERWISE AVAILABLE UNDER INCENTIVE PROGRAMS. IMPORT PROCEDURES AND DOCUMENTARY REQUIREMENTS

ARE A HINDRANCE TO NEW-TO-MARKET EXPORTERS. FINALLY, THE GOB ON JUNE 24 OF 1974 ANNOUNCED NEW MEASURES TO LIMIT IMPORTS, INCLUDING DUTY INCREASES OF 100 PERCENT FOR A LARGE NUMBER OF "NON-ESSENTIAL" ITEMS. THIS LAST ACTION AFFECTED ABOUT TWO PERCENT OF US EXPORTS TO BRAZIL. THE IMPACT OF THE OTHER RESTRICTIONS IS MUCH LARGER, THOUGH DIFFICULT TO QUANTIFY.

4. EXPORTS RESTRAINT ON OILSEEDS/PRODUCTS: GOB HAS TAKEN SEVERAL ACTIONS IN RECENT YEARS TO RAISE EXPORTS PRICES FOR OILSEEDS/PRODUCTS OR TO FORCE RENEGOTIATION OF EXPORTS CONTRACTS AT HIGHER PRICES. IN SEPTEMBER 1973, GOB ESTABLISHED MEP'S FOR CASTOR OIL, SUPPLEMENTED IN APRIL 1974 LIMITED OFFICIAL USE

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BY GOB DECISION TO PURCHASE AND HOLD OIL STOCKS. CASTOR OIL MEP'S ABANDONED IN JULY 1974 AFTER GOB ENCOUNTERED SEVERE DIFFICULTIES IN ADMINISTERING THIS SYSTEM. SOYBEAN OIL EXPORTS ARE CURRENTLY SUSPENDED BY GOB, AND THIS SUSPENSION PLACES AN ADDITIONAL SUPPLY BURDEN ON US. US IS CONCERNED WITH CONTINUING DISRUPTIVE EFFECT THAT GOB INTERVENTION HAS ON WORLD OILSEED/PRODUCT MARKETS.

5. EXPORT RESTRAINTS ON HIDES: GOB IMPOSES HIGH EXPORT TAX ON RAW HIDE EXPORTS WHICH EFFECTIVELY PRECLUDE SUCH EXPORTS. THIS SITUATION PLACES UNDUE INTERNATIONAL DEMAND STRAIN ON US SUPPLIERS.

C. PRINCIPAL BRAZILIAN TRADE PROBLEMS WITH OTHER LATIN AMERICAN COUNTRIES:

NO SPECIFIC PROBLEMS IDENTIFIED. HOWEVER, ARGENTINA (BRAZIL'S MOST IMPORTANT MARKET IN LATIN AMERICA) AND BRAZIL ARE NATURAL TRADING RIVALS IN MANY AGRICULTURAL PRODUCTS (E.G., BEEF, CORN, LEATHER), AS WELL AS IN NEW MANUFACTURED EXPORTS.

D. PRINCIPAL BRAZILIAN TRADE PROBLEMS WITH NON-HEMISPHERIC COUNTRIES:

WITH REGARD TO EUROPE, SEVERAL OF BRAZIL'S IMPORTANT TROPICAL PRODUCTS COMPETE WITH THE PREFERENTIAL TRADE OF FORMER BRITISH OR FRENCH COLONIAL TERRITORIES, AND BRAZIL ENCOUNTERS SOME OF THE SAME BARRIERS IN THE EC AS DOES THE US (E.G., VARIABLE LEVIES ON CORN). VIS-A-VIS JAPAN, A NUMBER OF BRAZIL'S AGRICULTURAL EXPORTS ENCOUNTER QUOTAS AND HIGH DUTIES. KISSINGER

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